

TREASURY DEPT. UNRAVELS IN REVENUE CASE

Points on Excess Profits, Disputed by Legal Authorities of Country, Are Settled in Formal Statement From Department—Invested Capital Defined by Decision.

Washington, Feb. 5.—The Treasury Committee on Excess Profits, which has been studying the excess profits section of the War Revenue act for more than four months, has completed its interpretation of the law and the regulations recommended have been approved by the Secretary of the Treasury. The provisions which deal with the definition of invested capital of corporations and partnerships, also with the treatment under Section 210 of cases in which capital cannot be satisfactorily determined, are of the most general interest.

A statement issued by the Secretary of the Treasury clears up many questions affecting the determination of the basis for figuring profits, but leaves a number yet to be threshed out by individual rulings or by amendment of the law. A new draft of the War Tax act is now being prepared by the Internal Revenue Bureau, embodying proposed amendments on subjects which officials think cannot properly be passed on by executive rulings.

Excess profits return forms will be available in a few days and returns must be made by March 1 on the 1917 business. Some extension of this time has been urged by business interests.

The statement follows:

"The provisions of Section 210, which permit the deduction to be computed by reference to the deductions as determined in the ordinary way in the case of representative concerns engaged in the same trade or business, are held to apply to a number of classes of exceptional cases, among which are the following:

"(1) Where, on account of defective accounting, it is impossible to accurately compute the invested capital.

"(2) In the case of a foreign taxpayer, where the Secretary finds upon application that the expense of securing the necessary data is unreasonable in view of the amount of tax involved or that it is impracticable to determine either the entire investment or the entire net income.

"(3) Long-established business concerns, which, by reason of conservative accounting or the form and manner of their organization, would, through the operation of Section 207, be placed at a disadvantage in competition with representative concerns doing a similar business.

"(4) Where the invested capital is seriously disproportionate to the taxable income, as for example because of the realization in one year of the earnings of capital unproductively invested through a period of years, or of the fruits of activities antedating the taxable year, or because of inability to recognize or properly allow for amortization, obsolescence, or exceptional depreciation due to the present war.

Applies to Occupations

"Section 209, which provides an 8 per cent. rate in the case of taxpayers having only a nominal invested capital, is held to apply primarily to occupations, professions, trades and businesses engaged principally in rendering personal services, and in which the employment of capital is not necessary and the earnings of which are to be ascribed primarily to the activities of the owners. In such cases the mere size of capital, form of organization, etc., are not determining factors in the employment of the capital used is necessary because of delay or irregularity in receiving fees, etc., or if such capital is mainly used as a fund to advance salaries of wages or to provide office furniture, equipment, etc.

In general, nominal capital is defined as a small or negligible capital whose use in a particular trade or business is incidental, and does not include a business which because of conditions arising from the war or exceptional opportunity for profits earns a disproportionately high rate of profit during the taxable year if it belongs to a person who has not customarily and customarily requires capital for its operation; nor to corporations which, although their capitalization is nominal, employ a substantial amount of capital in their business; nor to a business having a substantial capital, but whose entire net income is derived from the sale of securities within the meaning of Section 207 is reduced to a nominal amount by the operation of the restrictive clauses of that section.

The law provides that all of the activities of a corporation or partnership shall constitute a single business and that its income is to be derived from that business. Where corporation or partnership, however, is engaged in a business having no invested capital, it is provided in the regulations that its entire income will be held to be of the same class as the income from its principal business and to take the rate of tax applicable to that business.

In the case of an individual engaged in one or more trades or businesses having invested capital and also having income of a class taxable at the 8 per cent. rate, the regulations provide that all the income of each class shall be lumped together and the aggregate of each class taxed separately at the rates applicable to that class. The specific exemption of \$5,000 will be allowed as to each class.

It is also provided that where dealers in securities make trading profits from the sale of investments, the income from that source is exempt from the excess profits tax, there may be included in their invested capital the proportion of the amount invested in such securities which the trading profit bears to the entire return from such security during the taxable year. In such cases the trading profit is, of course, subject to the tax.

Returns are to be made and the tax paid at the same time as the income tax.

Corporation Capital

"The provision, which is probably of the greatest general interest, is that which lays down the rule for the

computation of the invested capital of corporations and partnerships. The law provides that the invested capital shall consist of the actual capital paid in and of the paid in or earned surplus and undivided profits, exclusive of the undivided profits of the taxable year. The law also prescribes certain limitations upon the valuation of assets and other items. The regulations provide that the total of the capital surplus and undivided profits as shown on the books, adjusted as required by the limitations just referred to and as permitted by certain other provisions of the regulations, shall constitute the invested capital. In the few cases, however, where this total exceeds the adjusted value of the admissible assets (the amount which is tax free), the invested capital must be reduced so as not to exceed the total value of the admissible assets. If there be any change in the invested capital during the taxable year, the monthly average shall be taken.

In addition to the express provisions of the law relating to invested capital, several of the provisions of the regulations supplementing those of the law are of the greatest importance. If because of failure to provide for depletion, depreciation, obsolescence or other expenses or losses, the books of the corporation or partnership do not show its true surplus or undivided profits, the necessary adjustments must be made. On the other hand, the amounts which have been expended in the past for plant, equipment or other tangible property still owned and in active use by the corporation or partnership and have been charged as current expense, may, unless such expense has been claimed as a deduction under the income tax act of 1913 or 1916, be added to the surplus account, proper allowance being made for depletion or obsolescence. Amounts so expended for good will, trade marks, trade brands, franchises, and other like intangible assets may be added only if bona fide payment was made therefor, specifically as such, in cash or tangible property. No readjustment can be allowed, however, for expenditures made for the general development of intangible assets, but such cases may, to some extent, be provided for under Section 210, to which reference has already been made.

"Another important provision relating to the invested capital of a corporation or partnership is that when it can be shown by satisfactory evidence that tangible property has been conveyed to it by gift or at a value clearly and substantially in excess of the cash or fair value of the stock exchanged therefore, then the amount of the excess shall be included as paid in surplus.

"The invested capital of mutual insurance companies will consist of the sum of any surplus or contingent reserves maintained for the general use of the business and any legal reserves, the net additions to which are included in the net income subject to the tax. These companies are, of course, like all other corporations, subject to the general restriction already mentioned relating to tax-free assets.

"One other important provision relating to corporations is that every corporation must describe in its return all its relations with other affiliated corporations and that in certain cases the Commissioner of Internal Revenue may require such affiliated corporations to make a consolidated return of net income and invested capital. Further provision is also made for the assessment of the tax on the basis of such consolidated returns.

"While the law expressly provides that in the case of a corporation or partnership all of its income shall be derived from trade or business. In the case of an individual, however, only that portion of the income which arises from trade or business is subject to the excess profits tax, and the definition of trade or business becomes especially important. The regulations provide that all occupations and professions and all activities for gain, sufficient frequency or occupying such portion of the individual's time or attention as to constitute a vocation shall be considered trades or businesses, even though not continuously carried on during the whole of the year, and that all of the income arising therefrom shall be included in his return for excess profits tax. Gains or profits from transactions entered into for the purpose of making a profit, incidentally or so infrequent as not to constitute an occupation, and income from property arising merely from its ownership, including interest, rent, and similar income, from investments, are in the case of an individual not subject to the excess profits tax, except in those cases where the management or such investments really amounts to a trade or business.

"Other provisions of interest to individuals are those which provide that the profits of the taxable year may, if put back into the business, be included as invested capital, and that a member of a partnership who receives a salary from the partnership is also entitled to a deduction of \$5,000 in computing his excess profits tax upon the salary."

AUTO SUPPLY CO. BANKRUPT.

Hartford, Feb. 5.—The Lindsay Auto Supply Co. of New Haven filed a petition in bankruptcy in the United States district court in this city today, showing liabilities of \$20,791 and assets of \$11,530, although the concern has only \$9 in cash.

EX-CIRCUIT JUDGE DEAD.

Portland, Me., Feb. 5.—Judge William Lebaron Putnam, who retired last September as judge of the United States district court of appeals, after a service of nearly 30 years, died at his home here today.

\$1,000,000 DAMAGE IN JAIL FIRE

Prisoners Quiet As Indiana Reformatory Is Destroyed By Flames.

Jeffersonville, Ind., Feb. 6.—Five of the 13 buildings in the group comprising the Indiana State Reformatory were destroyed by fire here early today, with an estimated loss of \$1,000,000. Twelve hundred eighty-five prisoners, in cell houses and dormitories, were marshalled in orderly array and assembled in the quadrangle. At the word of command they quietly marched to the institutional school building, 200 yards away from the fire, where they were placed under guard. None tried to escape.

The blaze was discovered shortly after midnight in the trade school building in the department largely devoted to the making of fibre chairs and is believed to have been caused by crossed electric wires.

With the destruction of the dining room, kitchen and food supply the prison authorities today faced the problem of feeding the prisoners. On the authority of a member of the board of trustees packing firms, bakers and other like institutions in Louisville were communicated with before the fire had been gotten under control and supplies were ordered. Col. W. H. Hart, U. S. A., solved the problem of preparing the food by offering to lend army field kitchens from the supply at the quartermaster depot here. Other arrangements included plans to erect a temporary dormitory to house the prisoners for a temporary dining room.

Fifty-four sailors from the American fleet in Louisville, on furlough, assisted in fighting the fire, and made plans to relieve the prison guards at intervals until other arrangements are made for the care of the prison inmates.

U-BOAT WARFARE SUCCESSFUL, IS BERLIN'S VIEW

Amsterdam, Feb. 5.—A dispatch received here today from Berlin gives the German reply to the statement last week of Sir Eric Geddes, first lord of the British admiralty, who in reviewing the first year of unrestricted submarine warfare said the submarine menace was held, that the sinking of merchantmen was decreasing and that the destruction of submarines was increasing, and that the morale of the submarine crews was deteriorating on account of the British policy of secrecy in regard to the fate of the men on submarines which failed to return to their homes.

FIRE DESTROYS EIGHT BUILDINGS IN ABERDEEN, IND.

Aberdeen, Md., Feb. 5.—Fire of undetermined origin destroyed eight business buildings here early today, causing losses totaling about \$100,000. All were wooden structures from 1-1/2 to three stories in height and included the post office, Hanway & Gibbs' general store, Tarrington's hardware store and a drug store. A detachment of soldiers with fire apparatus from the new army proving ground, rendered effective assistance in extinguishing the flames, which at one time threatened to destroy the town. Below zero temperature and frozen hydrants hampered the firemen.

CHILDREN'S YEAR IS SUNDAY SCHOOL PLAN

London, Feb. 5.—The British Sunday School Union is appealing to religious organizations throughout the world to recognize 1918 as a special "children's year." The idea is that all meetings and conventions throughout the year shall give the utmost prominence to the problems connected with the training of the young.

The Sunday School Union's appeal urges that "the children and young people of the world are passing through a psychological and spiritual crisis, and that efforts should be made to inspire them with high ideas of character and duty."

WANT CERTIFIED ACCOUNTANTS

Washington, Feb. 5.—Mobilization of all certified accountants who come within the draft law has been ordered so as to supply vacancies in the army business organization.

REDS HIRED TO WREAK SABOTAGE

Paris Paper Publishes Headquarters Orders to German Agents.

Paris, Feb. 6.—A letter of instruction to German military agents in the United States, dated Jan. 15, 1918, "General Headquarters, Dr. Fisher," is published by the Petit Parisien. In the letter directions are given concerning the destruction of property in the United States by explosions and otherwise, and the "Agents to carry out destructive work can be recruited among the workmen's unions which have anarchistic tendencies."

SAVE FLOUR BY USE OF POTATOES

Four Pounds of Vegetable to One Pound of Wheat Temporary Plan.

Hartford, Feb. 6.—Potatoes have come to the front as a substitute for wheat flour in an official sense. State Food Administrator Robert Scoville ordered that wheat flour should be sold only on a 50-50 basis, naming a list of substitutes. Mr. Scoville, because of local conditions and the scarcity of substitutes, made temporary modification to a 80-20 basis.

Today he issued the following: "On and after Thursday, Feb. 7, the percentage of substitute to be sold with wheat flour is increased so that hereafter an equal amount of such substitute must be sold with all wheat flour. Permission has been obtained from the United States food administration at Washington to add white potatoes, to the list of substitutes on the basis of four pounds of potatoes to one pound of wheat flour. The use of potatoes as a substitute is a temporary measure and will be withdrawn as soon as additional official substitutes become available. Potatoes on the above basis are the only exception to the official list of substitutes furnished in the Connecticut rules of Jan. 28."

Simultaneous with the foregoing announcement Mr. Scoville sent to wholesalers a copy of his statement which contains a list of substitutes which wholesalers may accept as evidence that the purchaser has obtained the required percentage of potatoes. To county agents of farm bureaus, middlemen and others interested, Mr. Scoville will send the press notice and a special warning against increasing the present price of potatoes.

WAR CROSS FOR TEN AMERICANS

Paris, Feb. 5.—Excellent work has been done recently by the United States Army Ambulance, according to the reports made by the French officers under whom the men have been serving. Lieut. H. L. Bibby, Corporal Leroy C. Clark, Mechanic H. A. Dolda and John B. Vanderbilt of Section 525 have been decorated with the War Cross, as also have First Class Privates George B. Hartwell, Albert S. Streike, S. Baldwin, E. Kirkland and W. Swartley of Section 517.

Section 525, which is the old Section 14 of the Field Service Ambulance, has been commended in army orders.

Charles B. Cummings of Section 591, who recently was awarded the War Cross, is in Dr. Blake's hospital suffering from the effects of a gas attack.

Twenty new sections recently arrived from America, thereby greatly increasing the service in France.

FOUR DEAD, TWELVE INJURED IN WRECK

Caribou, Me., Feb. 6.—Three passengers and a trainman were killed and 12 passengers were injured in a double collision on the Bangor & Aroostook railroad here early today. A passenger train bound from Bangor for Van Buren crashed into a snow plow which had been stalled by drifts and a moment later another plow ran into the rear of the train.

LEAVES BIG SUMS TO CHURCH BODIES

Hartford, Feb. 6.—Miss Cornelia E. Canine, who died in this city Jan. 10, bequeathed in her will, admitted to probate today, nearly \$25,000 to institutions and societies. The more important are:

American Board for Foreign Missions, \$3,000; Berea College, \$2,000; Tuskegee Normal Institute, \$2,000; Plisk University, \$2,000; Hampton Institute, \$2,000; Atlanta University, \$2,000; Congregational Home Missionary Society, \$2,000; American Sunday School Union, \$2,000; Women's Board of Missions, \$1,000; Mt. Hermon School, \$500; Northfield Seminary, \$500; Moody Bible Institute, \$500; Connecticut Bible Society, \$500; Connecticut Temperance Union, \$500.

PRISONERS RELEASED BY REDS

Thousands of War Captives, Liberated, Rush to Petrograd District.

London, Feb. 6.—Enemy prisoners of war are being released by the local workmen's and soldiers' councils of Russia. Thousands have been liberated already and it is estimated that 40,000 former prisoners are now in the Petrograd district.

This information was disclosed today by the Russian commission of war prisoners. The commission said that the liberated prisoners are moving rapidly to join others in the Petrograd district.

An official Russian wireless dispatch contains a declaration by the Lettish representatives from the Lettish councils of Socialists and soldiers, protesting against the assertion of the Austro-German delegation in Brast-Litovsk that the Letts had expressed a desire for separation from Russia. The demand is expressed that the German and Russian forces be withdrawn from the Lettish territory so that the inhabitants can freely express their will for unconditional unity and undivided existence.

A declaration similar to that made by the Letts has been issued by the Estonians. It demands full and unfeigned self determination for the whole of Estonia, including Oesel, Dagoo and the neighboring islands inhabited by Estonians.

The declaration says the separation of the islands from the rest of Estonia would be a gross violation of the sovereign rights of Estonia and protests against the annexation of the islands by Germany under any conditions or any pretext. The demand is made that German and Russian troops evacuate Estonia and permit the taking of an unimpeded vote regarding the political future of the Estonians.

COMMITTEE WILL PROBE RAILROAD TRAFFIC TIE-UPS

Washington, Feb. 6.—Further steps looking to diversion of railroad traffic from the most congested eastern gateways were taken today by Director General McAdoo by appointment of a traffic investigation committee. It consists of B. L. Winchell, Chicago, traffic director of the Union Pacific; G. F. Randolph, New York, head of a number of trunk line committees; and C. C. Powell, Cincinnati, vice-president of the Southern railway.

"This committee," said Director General McAdoo's announcement, "to make a study of the great traffic currents of the country with a view to seeing what steps can profitably be taken in order to shift traffic from the most serious congested gateways to the more congested ports to the less congested ports."

Mr. McAdoo explained to the committee that in view of the government operation the railroads should be surveyed as a national system and traffic routed over the most economical lines regardless of ownership. The committee will deal with the larger questions affecting traffic movements between the west, east and south, and will not interfere with similar studies to be conducted by each of the three regional directors for local territories.

Appointment of the committee is in line with the railroad administration's policy of diversion of traffic which was ordered in the dispatch of between 50,000 and 100,000 bales of cotton to south Atlantic and gulf ports for transshipment to New York and New England or for export.

COMMANDER WHO FIRED ITALIAN SUB IS REDUCED

Washington, Feb. 5.—Lieut. Commander Ernest Friedrich, who in command of the gunboat Nashville fired by mistake late last summer on an Italian submarine in the Mediterranean, was ordered reduced 30 numbers by the naval court which tried him, it was learned yesterday, and the sentence was approved by Secretary Daniels despite the fact that the Italian government officially interceded in behalf of the officer and the naval court made an unanimous recommendation for clemency.

FIREMEN FREEZE FIGHTING FLAMES IN MOVIE HOUSE

Torrington, Feb. 5.—Fire of unknown origin, discovered at 3 o'clock this morning in the Strand theatre here, resulted in the almost total destruction of the building with an estimated loss of \$30,000, partly insured. The face and neck of a fireman, Herman Schapp, were frozen and he may not recover. Five other firemen's ears, noses or fingers were frozen. The temperature was 18 below zero. The flames were not extinguished until mid forenoon. The theatre was used for moving pictures. It was the oldest theatre in Torrington.

TRAVELERS FROM GERMANY QUOTE HINDENBURG AS SAYING HE WILL BE IN Paris in April.

Paris, Feb. 6.—A letter of instruction to German military agents in the United States, dated Jan. 15, 1918, "General Headquarters, Dr. Fisher," is published by the Petit Parisien. In the letter directions are given concerning the destruction of property in the United States by explosions and otherwise, and the "Agents to carry out destructive work can be recruited among the workmen's unions which have anarchistic tendencies."

SENT MORE MEN THAN PLANNED

Hadn't Counted on U. S. Shipping Alone in Making Estimate of Numbers of Troops Who Would Be in France by 1918, Baker Tells Senate Committee.

Washington, Feb. 6.—More American troops had been transported to France by January 1 of this year than had been planned by the government or promised the Allies, declared Secretary of War Baker today before the senate military committee.

Cross-examined on his statement that there would be 500,000 troops in France early this year and 1,000,000 more before winter, Secretary Baker disclosed that ships belonging to one of the allies, presumably Great Britain, have been obtained to reinforce the American transport fleet.

While the senators were discussing whether to continue in public session or go into private meeting, Secretary Baker explained that perhaps he had been unfortunate in making his original statement to the committee by giving his general opinions rather than the exact facts and details presented by experts having the subject in charge. He proposed that he be permitted to prepare such statements, present them to the committee and return for cross-examination later.

Secretary Baker's cross-examination was begun by Senator Weeks of Massachusetts, Republican, in connection with the number of troops to be sent abroad this year.

On Jan. 1, Secretary Baker said, more troops had been transported to France, including both non-combatant and fighting forces, than had been planned.

Secretary Baker and Senator Weeks agreed that it was improper to disclose the number of American troops in France.

Transportation of fighting troops was temporarily reduced, Secretary Baker said, in discussing the shipping situation, by the necessity of sending larger engineering forces.

The shipping board and the war department, Secretary Baker said, are in constant contact, exhaustively studying the shipping situation. Gen. Bliss, he said, took the information abroad as a basis of calculation in connection with the shipping situation. About 130,000 tons additional have recently been obtained.

Senator Weeks asked if it were true that the War Department had 721,000 tons of ships available for transporting troops on Feb. 1. Secretary Baker did not know but thought that an underestimate.

In his former statement that a million men were probably could be sent to France this year Secretary Baker explained, he did not depend wholly on American shipping in his calculations.

Senator Hitchcock said that on Nov. 30 the Shipping Board advised him that the total gross available American tonnage was 582 ships of 3,721,806 materials and the money—all that is lacking is a spirit in the nation that will send a quarter of a million American mechanics into the yards to give their best and most efficient work.

"I am sorry to say at the present time that the native born American workman is not the mainstay of the ship yard, for he is there only to the extent of 35 per cent. of the men employed and to the extent of 65 per cent, we are forced to depend on foreign born labor."

OUTCOME OF SUBMARINE CAMPAIGN UP TO LABOR

Washington, Feb. 6.—Responsibility for the success or failure of the government ship building program was put on labor today by Charles Piez, general manager of the emergency ship corporation, in an appeal for shipyard workers.

The fact that ship yards are working only one shift six days a week was characterized by Mr. Piez as "monstrous."

"If we are to keep ahead of the submarine campaign," said he, "we must run three shifts a day 2 weeks in the year."

Mr. Piez's statement followed: "Within 60 days huge government yards will be completed and soon thereafter more than 60,000 workmen will be required to furnish for them the three eight-hour shifts necessary to turn out ships to turn out ships according to schedule."

"Our program calls for the construction in 1918 of eight times the tonnage delivered in 1916, at a cost of more than \$1,000,000,000. The shipping board has the necessary yards, the

PASSENGER TRAIN STALLS IN DRIFT

Winsted, Feb. 5.—The Central New England railroad sent its snow plow, which arrived from Pine Plains, N. Y., last night, to Feeding Hills, Mass., to release passenger train No. 900, which was snowbound on the way from Springfield to Torrington late yesterday. All available men were taken today on a train to Norfolk Summit to clear the drifts there. This is the highest point in the state. Drifted tracks have prevented train movements.

BRITISH LOSSES FOR ONE WEEK TOTALLED 6,354

London, Feb. 5.—British casualties reported during the week ended yesterday totaled 6,354, divided as follows:

Killed or died of wounds—Officers, 51; men, 1,235.

Wounded or missing—Officers, 173; men, 4,895.

SOSA AUCTIONS HIS BATON TO BUY TROOPS BASEBALLS

Chicago, Feb. 5.—Lieut. John Philip Sousa, bandmaster at the Great Lakes naval training station, offered his historic baton at auction for the benefit of the fund which is being raised to obtain baseball equipment for the jacks and it was sold for \$120, it became known today. The wand has been in the possession of the noted bandmaster for 4 years, having been presented to him in 1909 by members of the band of which he was then leader.

Another loan of \$3,500,000 was granted to Belgium.

Washington, Feb. 6.—Ten months of the war have cost the United States about \$7,100,000,000—at the rate of \$710,000,000 a month, nearly \$24,000,000 a day.

More than half of this huge sum, or \$415,000,000, has been paid as loans to the Allies, and the balance, about \$3,000,000,000, represents America's outlay for its own war purposes, exclusive of more than \$600,000,000 for ordinary government expenses.

The war's toll in money is increasing at the rate of more than \$100,000,000 a month, and indications are that the two remaining months of the nation's first year as a belligerent will raise its war bill to almost \$10,000,000,000, of which \$5,000,000,000 will be for allied loans and about the same amount for the army, navy, Shipping Board and other war agencies.